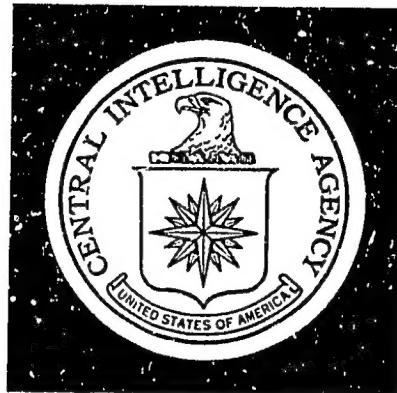


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Communist Exports of Petroleum to the Free World
in 1967 and Prospects for 1968-70*

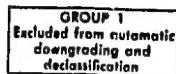
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
May 1968

INTELLIGENCE MEMORANDUM

Communist Exports of Petroleum to the Free World
in 1967 and Prospects for 1968-70

Summary

Exports of petroleum from the USSR and the Communist countries of Eastern Europe to the Free World in 1967 amounted to about 51 million tons,* with an estimated value of \$610 million.** This was an increase of almost 6 percent over 1966 and was the smallest annual increase in sales to the Free World since 1955, when the Communist countries first became net exporters of oil.

Most of the oil exported from Communist countries to the Free World in 1967 originated in the USSR, which emphasized sales to the industrialized countries of Western Europe to earn convertible currencies for the purchase of Western equipment and technology. Sales to these countries increased by more than 5 million tons in 1967, or by 18 percent above 1966. Shipments to less developed nations of the Free World went down 22 percent, the second successive year of decline. Rising demand in the USSR limited the growth in the amount of

* Tonnages are given in metric tons.
** All references to exports of petroleum from Communist countries refer to exports from the USSR and the Communist countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania.

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oil available for export, and there was little Soviet interest in goods that the less developed nations offer in exchange for oil. Moreover, closure of the Suez Canal as a result of the Arab-Israeli crisis made it difficult for the USSR to supply certain markets east of Suez and elsewhere.

In 1968, approximately 55 million tons of petroleum may be exported from Communist countries to the Free World, about 8 percent more than in 1967. Some 48 million tons of Soviet petroleum -- 30 million tons of crude oil and 18 million tons of refined products -- probably will be available for export to the Free World. In addition, the Free World probably will continue to receive about 7 million tons of products from the Communist countries of Eastern Europe.

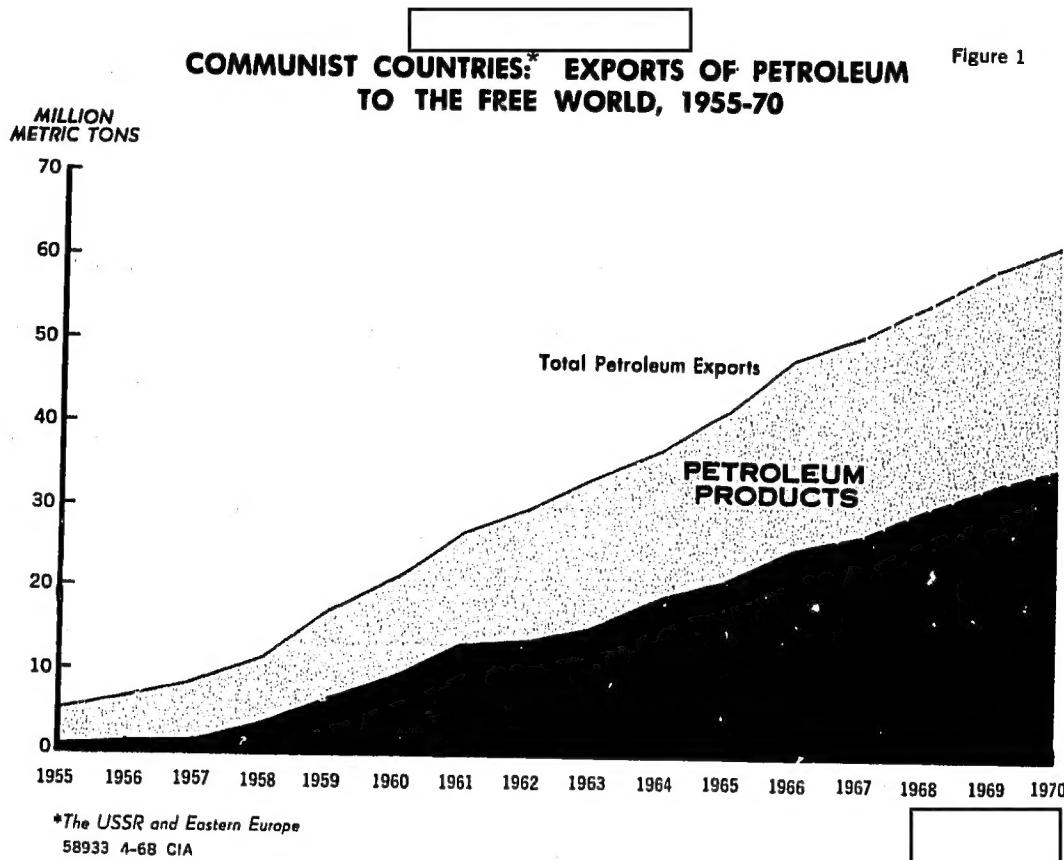
During 1968-70, rising demands for oil in the Communist countries will militate against any substantial increase in the availability of petroleum for export. It is doubtful that exports of oil from these countries to the Free World will increase at an annual rate of more than 8 percent. If, as is expected, demand for oil in the Free World (excluding the United States) increases at an annual rate of about 10 percent, the share of that demand satisfied by imports from Communist countries will decline.

It is unlikely that Eastern Europe will import large quantities of oil from countries other than the USSR during 1968-70. The Friendship pipeline is being expanded to facilitate movement of greater amounts of crude oil from the USSR into Eastern Europe. Although some Eastern European Communist countries are seeking to diversify their sources of supply by negotiating with oil-producing countries of the Middle East, thus far no oil from that area has been delivered. The amount of non-Soviet oil that the Eastern European countries will import may be partially determined by the quantity of Eastern European goods that oil-producing countries of the Free World will accept in exchange. Probably no more than 5 million to 7 million tons of oil from the Free World will be imported into Eastern Europe in 1970.

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Origin and Composition

1. In 1967 the USSR and the Communist countries of Eastern Europe exported about 51 million tons of petroleum to the Free World, approximately 6 percent more than in 1966. Of this total, the USSR supplied nearly 44 million tons -- almost 27 million tons of crude oil and 17 million tons of petroleum products. The Communist countries of Eastern Europe furnished the remaining 7 million tons, all petroleum products. The growth in exports of petroleum from Communist countries to the Free World since 1955 is shown in Figure 1.



2. The increase in exports of petroleum from Communist countries to the Free World in 1967 was the smallest annual increase in such exports since 1955, when the USSR became a net exporter of oil. During the past decade the production of crude oil has outpaced the expansion of refining capacity in

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the USSR, thereby making possible increased exports of oil and the earning of significant amounts of foreign exchange. In 1967, however, two new refineries with a total combined capacity of 12 million tons per year were fully utilized for the first time. As a result, the crude oil charge to Soviet refineries rose at a higher rate than usual, and a greater share of crude oil production was used to satisfy the growing domestic demand for petroleum products.

3. Refining capacity in the Free World, especially in Western Europe, has been expanding, and demand for imports of petroleum products is not rising nearly as rapidly as is demand for crude oil. This lack of Free World interest in imported petroleum products, coupled with the growing demand for petroleum products in Communist countries, has caused the rate of increase in Communist exports of products to slow considerably. In 1967, Communist exports of petroleum products to the Free World were only about 700,000 tons greater than in 1966, an increase of about 3 percent (see Table 1). This is in marked contrast to the previous five years, when the average annual increase in Communist exports of petroleum products was approximately 12 percent.

Markets

4. All of the increase in Communist sales of petroleum to the Free World in 1967 was in exports to the developed countries, primarily to Western Europe; exports to the less developed countries declined for the second consecutive year. Soviet deliveries to the developed countries rose from about 33 million tons in 1966 to more than 37 million tons in 1967 and represented about two-thirds of the value of total Soviet exports of oil to the Free World. Soviet sales to the less developed countries were nearly 2 million tons less than in 1966. Exports of petroleum products from Eastern Europe to the developed countries in 1967 were about 5 percent higher than in 1966, whereas exports to the less developed countries were 10 percent lower. The allocation of exports of petroleum from Communist countries is indicated in the following tabulation:

| Importing Area | Million Tons | | | | | |
|--------------------------|---------------|---------------------|-------------|---------------|---------------------|-------------|
| | 1966 | | | 1967 | | |
| | From the USSR | From Eastern Europe | Total | From the USSR | From Eastern Europe | Total |
| Developed countries | 32.8 | 5.7 | 38.5 | 37.3 | 6.0 | 43.3 |
| Less developed countries | 8.5 | 1.0 | 9.5 | 6.6 | 0.9 | 7.5 |
| <i>Total</i> | <u>41.3</u> | <u>6.7</u> | <u>48.0</u> | <u>43.9</u> | <u>6.9</u> | <u>50.8</u> |

5. In 1967 the USSR was able to increase earnings of hard currency by expanding sales to the industrialized countries. The rate of increase in sales to five Western European nations -- Italy, West Germany, Sweden, France, and Norway -- was more than three times the overall rate of increase in Soviet exports to the Free World. The extent to which the increase in exports to industrialized countries of Western Europe resulted from the Arab-Israeli crisis cannot be determined, because the pattern of annual growth in exports to these countries has been so erratic in past years. It appears probable, however, that the reduction in exports to the less developed countries stemmed, at least in part, from Soviet unwillingness to tie up tankers on long voyages to such countries as India, Ceylon, and Burma after the Suez Canal was closed. Reduction also resulted from changes in import policies of some of the less developed countries. For example, Ghana, in an effort to secure crude oil at lower prices, switched from the USSR to Western suppliers. Its contract with the Western suppliers, which originally ran from September 1967 to February 1968, has been renewed through August 1968. Consequently, Soviet sales to Ghana in 1968 will be smaller than they have been. Argentina cut imports of Soviet petroleum products in half in 1967 as a result of an increase in its own production of crude oil that enabled domestic refineries to meet a larger share of the demand for petroleum products by processing the indigenous crude oil.

Table 1

Composition, Origin, and Destination of Communist Exports of Petroleum
1966-67

| | Million Metric Tons | | | | | | | | | |
|--------------------|---------------------|------------------------------|---------------------|-------------------|-------------------------|---------------|------------------------------|---------------------|-------------------|-------------------------|
| | 1966 | | | | | 1967 | | | | |
| | From the USSR | | From Eastern Europe | | Total | From the USSR | | From Eastern Europe | | Total |
| | Total | To Other Communist Countries | To the Free World | To the Free World | Total to the Free World | Total | To Other Communist Countries | To the Free World | To the Free World | Total to the Free World |
| Crude oil | 50.3 | 25.5 | 24.8 | 0 | 24.8 | 54.0 | 27.1 | 26.9 | 0 | 26.9 |
| Petroleum products | 23.3 | 6.8 | 16.5 | 6.7 b/ | 23.2 | 24.7 | 7.7 | 17.0 | 6.9 b/ | 23.9 |
| Total | <u>73.6</u> | <u>32.3</u> | <u>41.3</u> | <u>6.7</u> | <u>48.0</u> | <u>78.7</u> | <u>34.8</u> | <u>43.9</u> | <u>6.9</u> | <u>50.8</u> |

a. Including the Communist countries of Eastern Europe, Cuba, Yugoslavia, Communist China, North Vietnam, North Korea, and Mongolia. For details of Soviet exports to these countries, see the tabulation on p. 15.

b. About half of the total was supplied by Rumania, the only Eastern European Communist country with an exportable surplus from indigenous supplies. Other Eastern European countries derive most of their capability to export petroleum products from refining imported Soviet crude oil.

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6. During 1967, about 41 million tons of petroleum were exported from Communist countries to Western Europe. This amount represented an increase of more than 5 million tons over the level of 1966 and constituted about 81 percent of total Communist exports of oil to the Free World. These exports to Western Europe represented about 9 percent of that area's rising total demand, an only slightly larger share than the 8 percent recorded during 1964-66. Italy, West Germany, and Finland received significantly larger amounts of oil from Communist countries in 1967 than in 1966. They imported half of all the oil sold by Communist countries to the Free World in 1967 (see Table 2). The United States imported two tanker loads of low-sulfur fuel oil from Rumania, the first oil that it had purchased from a Communist country since 1959.

7. Oil from Communist countries in 1967 constituted more than half of the petroleum consumed in Somalia, Finland, Iceland, Afghanistan, Ghana, Ceylon, and Yemen, but, except in the case of Finland, the quantities were not large. About 7.5 million tons of oil were exported from the Communist countries to less developed countries, 2 million tons less than in 1966. Sales by Communist countries to Argentina, Brazil, Burma, Ceylon, Ghana, and Greece were lower than in 1966.

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Table 2

Communist Exports of Petroleum to the Free World a/
1967

| Destination b/ | Thousand Metric Tons | | | | | | Percent of Recipient's Demand | |
|----------------|-------------------------------|------------------|---|---------------|--------------------|--|-------------------------------------|--|
| | Petroleum Products | | | | | | | |
| | Crude Oil from the USSR | From the USSR | From the Eastern European Communist Countries | Total | Total Petroleum | | | |
| Total | <u>26,875</u> | <u>16,996</u> | <u>6,937</u> | <u>23,933</u> | <u>50,808</u> | | 8 c/ | |
| Western Europe | <u>21,965</u> | <u>13,300</u> | <u>5,915</u> | <u>19,215</u> | <u>41,180</u> | | 9 | |
| Belgium | 0 | 450 | 120 | 570 | 570 | | 3 | |
| France | 1,700 | 1,100 | 900 | 2,000 | 3,700 | | 6 | |
| Italy | 10,600 | 700 | 350 | 1,050 | 11,650 | | 18 | |
| Netherlands | 0 | 50 | 0 | 50 | 50 | | Negl. | |
| West Germany | 4,070 | 1,250 | 1,600 | 2,850 | 6,920 | | 7 | |
| Denmark | 0 | 550 | 90 | 640 | 640 | | 5 | |
| Greece* | 670 | 650 | 175 | 825 | 1,495 | | 28 | |
| Iceland | 0 | 450 | 0 | 450 | 450 | | 82 | |
| Norway | 0 | 480 | 20 | 500 | 500 | | 8 | |
| Turkey* | 0 | 70 | 200 | 270 | 270 | | 5 | |

a. Preliminary estimates derived primarily from information on tanker movements and from Free World import data.

b. An asterisk indicates a less developed country; all others are developed countries.

c. If the demand of countries that do not import petroleum from Communist countries is included, the share of Communist oil in Free World demand, excluding that of the United States, is between 5 and 6 percent, as it has been for several years.

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Prospects for 1968-70

11. No substantial change is anticipated in the annual rate of increase or in the composition of exports of oil from Communist countries to the Free World through 1970. Soviet plans call for an increase of 21 million tons in the production of crude oil in 1968. With the past record of over-fulfillment, it is probable that the increase will approximate 22 million tons. Plans also call for the crude oil charged to refineries in 1968 to be 15 million tons more than in 1967. Thus the amount of Soviet crude oil available for export will be 7 million tons greater in 1968 than in 1967. Of this additional crude oil, at least 4 million tons are already committed to other Communist countries, and less than 3 million tons will be available for export to the Free World. Total exports of petroleum from Communist countries to the Free World in 1968 may reach 55 million tons, 8 percent more than in 1967. Included in this estimate of total exports are 30 million tons of crude oil and 18 million tons of petroleum products from the USSR and 7 million tons of products from the Eastern European Communist countries. It is expected that exports of petroleum from Communist countries to the Free World during 1969-70 will increase at an annual rate of 6 to 8 percent.

12. The trend of exporting available oil to hard currency countries, in preference to less developed countries that offer nonessential goods in exchange, probably will continue. Formation in 1967 of a Soviet-Belgian marketing company, Nafta S.A., in Antwerp and attempts by Nafta (GB), Ltd., to market petroleum products directly in the United Kingdom tend to strengthen this opinion.

13. During the period 1968-70 the demand for petroleum in the Free World, excluding the United States, will increase at a rate of about 10 percent. If exports of petroleum from Communist countries to the Free World increase at a rate of only 6 to 8 percent, the Communist countries will not be able to maintain their present 5 to 6 percent share in the Free World market.

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14. The ability of the Soviet Union to expand exports of oil to the Free World will be limited by production, by the growing demand for petroleum within the USSR, and by Soviet commitments to supply larger quantities of oil to other Communist countries, especially those of Eastern Europe. Soviet exports to other Communist countries during 1966 and 1967 are shown in the following tabulation:

| <u>Importing Area</u> | <u>Million Tons</u> | | | | | |
|-----------------------|---------------------|---------------------------|--------------|------------------|---------------------------|--------------|
| | <u>1966</u> | | | <u>1967</u> | | |
| | <u>Crude Oil</u> | <u>Petroleum Products</u> | <u>Total</u> | <u>Crude Oil</u> | <u>Petroleum Products</u> | <u>Total</u> |
| Eastern Europe | 21.0 | 4.3 | 25.3 | 22.7 | 5.0 | 27.7 |
| Cuba | 3.8 | 1.2 | 5.0 | 3.8 | 1.4 | 5.2 |
| Yugoslavia | 0.7 | 0.5 | 1.2 | 0.6 | 0.5 | 1.1 |
| Communist China | 0 | Negl. | Negl. | 0 | Negl. | Negl. |
| North Vietnam | 0 | 0.2 | 0.2 | 0 | 0.2 | 0.2 |
| North Korea | 0 | 0.4 | 0.4 | 0 | 0.4 | 0.4 |
| Mongolia | 0 | 0.2 | 0.2 | 0 | 0.2 | 0.2 |
| <i>Total</i> | <u>26.5</u> | <u>6.8</u> | <u>32.3</u> | <u>27.1</u> | <u>7.7</u> | <u>34.8</u> |

In 1967, when the USSR produced 288 million tons of crude oil, it exported almost 79 million tons of petroleum. Of this amount, about 35 million tons were shipped to other Communist countries, including 28 million tons to Eastern Europe. The Soviet plan for production of crude oil in 1970 is about 350 million tons. In that year the USSR may export 100 million to 105 million tons of crude oil and petroleum products -- 45 million to 50 million tons to other Communist countries and about 55 million to the Free World. It is anticipated that through 1970, Soviet exports to Communist countries other than those in Eastern Europe will remain at about the same level as during the past two years. Plans and agreements already exist whereby the Communist countries of Eastern Europe will import nearly 35 million tons of crude oil from the USSR in 1970. It is estimated that in that year these countries will also produce about 18 million tons of crude oil, import about 5 million tons of petroleum products from the USSR, and

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procure perhaps 5 million to 7 million tons of crude oil from other sources. About half of this non-Soviet oil probably will be imported by Rumania, which until the present has always met its own needs for crude oil and has been a net exporter of petroleum products.

15. The above plans and estimates of imports by Eastern European Communist countries are compatible with plans for expansion of pipeline and refining facilities. The Friendship crude oil pipeline system, which links Eastern Europe to the oilfields of the Urals-Volga region in the USSR, is being expanded to facilitate increased deliveries. This system is now operating near its capacity as originally designed, about 8 million to 9 million tons through the northern branch to Poland and East Germany and 9 million tons through the southern branch to Czechoslovakia and Hungary. A second line, parallel to the first, is to be laid throughout the entire system which eventually will have an annual capacity of about 47 million tons. This capacity probably will not be fully attained until the mid-1970's. The laying of the second line has been completed within Czechoslovakia, and work is in progress in the USSR. Larger pipe has been laid on the second strand than was used for the first, and the combined capacity of the southern branch probably will be about 22 million to 23 million tons per year when all pumping stations are installed. No such quantity of imported oil is yet required by Czechoslovakia and Hungary, and on the basis of plans for expansion of refining capacity it does not appear that the new portion of the southern line will be fully utilized until about 1975. By 1970, however, the capacities of refineries served by the southern branch of the line are to be expanded by about 7 million tons and the capacities of refineries served by the northern branch by 6 million to 8 million tons. Czechoslovakia and Poland have agreed to provide equipment for Soviet industry in return for increased deliveries of Soviet oil after 1970.

16. Bulgaria, which now receives nearly 4 million tons of petroleum from the USSR by sea, plans by 1970 to add 3 million tons of refining

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capacity and to increase its annual imports of petroleum by at least 3 million tons. The remaining Eastern European Communist country, Rumania, plans to add at least 3 million tons of refining capacity by 1970. Indigenous production of crude oil is not expected to increase rapidly enough to utilize this new capacity fully, and Rumania has been exploring possibilities for obtaining oil from the Middle East. It has concluded an agreement to import 3.5 million tons of crude oil from Iran during the period 1968-70 and has engaged in discussions with Saudi Arabia and Kuwait. Other Eastern European countries, in an effort to diversify sources of supply, also have made or are seeking to make arrangements with Iran for crude oil during 1968-70. To date, none of the Eastern European countries has taken delivery of any Iranian oil, probably because of the prohibitive transport costs caused by the closing of the Suez Canal. The quantity of non-Soviet oil that Eastern Europe can obtain may also be limited, in part, by the willingness of Free World countries to accept Eastern European goods in exchange.